

CITY OF ARROYO GRANDE

Audit Report

SPECIAL GAS TAX STREET FUND

July 1, 2020, through June 30, 2021



BETTY T. YEE
California State Controller

October 2022



BETTY T. YEE
California State Controller

October 5, 2022

Whitney McDonald, City Manager
City of Arroyo Grande
300 E. Branch Street
Arroyo Grande, CA 93420

Dear Ms. McDonald:

The State Controller's Office audited the City of Arroyo Grande's Special Gas Tax Street Fund to determine whether the city accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with requirements for the period of July 1, 2020, through June 30, 2021.

Our audit found that the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements, and that no adjustment to the fund is required.

If you have any questions, please contact Efren Lose, Chief, Local Government Audits Bureau, by telephone at (916) 324-7226.

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/ac

cc: The Honorable Caren Ray Russom, Mayor
City of Arroyo Grande
Nicole Valentine, Director of Administrative Services
City of Arroyo Grande

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Audit Report

Summary

The State Controller's Office (SCO) audited the City of Arroyo Grande's Special Gas Tax Street Fund to determine whether the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements for the period of July 1, 2020, through June 30, 2021.

Our audit found that the city accounted for and expended its Special Gas Tax Street Fund in compliance with requirements, and that no adjustment to the fund is required.

Background

The State apportions funds monthly from the Highway Users Tax Account (HUTA) in the Transportation Tax Fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Streets and Highways Code, cities must establish individual Special Gas Tax Street Funds for the deposit of their HUTA fund apportionments. Additionally, cities must expend their HUTA fund apportionments only for street-related purposes in accordance with Article XIX of the California Constitution and Streets and Highways Code.

Audit Authority

We conducted our audit of the city's Special Gas Tax Street Fund under the authority of Government Code section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended its Special Gas Tax Street Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code.

The audit period was July 1, 2020, through June 30, 2021.

To achieve our objective, we performed the following procedures:

- We gained an understanding of internal controls that are significant to the audit objective by interviewing key personnel, by completing an internal control questionnaire, and by reviewing the city's organization chart.
- We assessed the reliability of computer-processed data by reviewing existing information about the data and the system that produced it; by interviewing city officials knowledgeable about the data; and by tracing data to source documents, based on auditor judgement and non-statistical sampling. We determined that the data was sufficiently reliable for the purposes of achieving our audit objective.
- We conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- We performed analytical procedures to determine and explain the existence of unusual or unexpected account balances.

- We verified the accuracy of fund balances by performing a fund balance reconciliation for the period of July 1, 2001, through June 30, 2020, and by recalculating the trial balance for the period of July 1, 2020, through June 30, 2021.
- We verified that the components of and changes to fund balances were properly computed, described, classified, and disclosed by scheduling and analyzing the Special Gas Tax Street Fund account balances.
- We reconciled the fund revenue recorded in the city ledger to the balance reported in the SCO's apportionment schedule for fiscal year 2020-21 to determine whether HUTA apportionments received by the city were completely accounted for.
- We analyzed the system used to allocate interest, and determined whether the interest revenue allocated to the Special Gas Tax Street Fund was fair and equitable by interviewing key personnel and recalculating all interest allocations for the audit period.
- We reviewed the fund cash and receivables accounts for unauthorized borrowing to determine whether unexpended HUTA funds were available for future street-related expenditures and protected from impairment.
- We reviewed the city's Gas Tax Street Fund assets to ensure that they were properly recorded and identified.
- We verified that the expenditures incurred during the audit period were supported by proper documentation and eligible in accordance with the applicable criteria, by testing all expenditure transactions that were equal to or greater than the significant item amount (calculated based on materiality threshold), and judgmentally selecting non-statistical samples of other transactions for the following categories:
 - Services and Supplies – We tested \$228,436 of \$298,205.
 - Labor – We tested \$126,096 of \$424,807.
 - Indirect – We tested \$47,760 of \$146,524.
 - Transfers – We tested all \$235,728.

No errors were found.

We did not audit the city's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that the city accounted for and expended its Special Gas Tax Street Fund in accordance with the criteria.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Our audit found that the City of Arroyo Grande accounted for and expended its Special Gas Tax Street Fund in compliance with Article XIX of the California Constitution and Streets and Highways Code for the period of July 1, 2020, through June 30, 2021.

Follow-up on Prior Audit Findings

The city satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2000, through June 30, 2001, issued on June 30, 2003.

Views of Responsible Officials

We discussed the audit results with the City of Arroyo Grande representatives during an exit conference on July 25, 2022. The city's representatives agreed with the audit results.

Restricted Use

This audit report is solely for the information and use of the City of Arroyo Grande and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

October 5, 2022

Schedule—
Reconciliation of Fund Balance
July 1, 2020, through June 30, 2021

	Special Gas Tax Street Fund ¹
Beginning fund balance per city	\$ 90,321
Revenues	869,553
Total funds available	959,874
Expenditures	(869,535)
Ending fund balance per city	\$ 90,339
Ending fund balance per audit	\$ 90,339

¹Cities receive apportionments from the State HUTA, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the money may be used for any street-related purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. Cities must establish individual Special Gas Tax Street Funds for the deposit of their HUTA fund apportionments.

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